

# OFFICE OF THE STATE INSPECTOR GENERAL

## MEMORANDUM OF RECORD

<b>FILE NUMBER:</b> 03-071	<b>DATE OF ACTION:</b> 11-15-04
<b>OIG STAFF:</b> DIG Walker	<b>DATE PREPARED:</b> 11-15-04
<b>SUBJECT:</b> MOR to close	

On March 17, 2003, the Georgia Office of the Inspector General (OIG) received a complaint referencing an article written in the Atlanta Journal and Constitution. The news article outlined alleged problems found by the State of Georgia's Department of Audits and Accounts (DOAA) during a 2003 audit at the Governor's Office of Highway Safety (GOHS). On April 16, 2003, the OIG opened an inquiry concerning the audit findings and requested a meeting with Mickey McGuire, acting Director of GOHS to discuss a plan of action (POA) to correct the audit findings.

GOHS is a state agency created by the General Assembly of Georgia and assigned administratively to the Department of Public Safety (DPS) in accordance with the Official Code of Georgia Annotated (OGAA) § 50-4-3. The Director of the GOHS is appointed by the Governor and serves at his pleasure. GOHS's mission is to educate the public on highway safety issues and to facilitate the implementation of programs that reduce crashes, injuries, and fatalities on Georgia roadways. GOHS receives federal funding through the National Highway Traffic Safety Administration (NHTSA). GOHS uses a portion of its federal funding for in-house grants to administer statewide programs. GOHS is responsible for identifying potential grant recipients, reviewing grant applications, monitoring the progress of grant-funded projects, reviewing grantee's programmatic reports and reimbursement requests. In fiscal year 2003, the GOHS was budgeted to spend \$24.7 million in federal funds and \$609,229 in state funds.

In March of 2003, at the request of the Commissioner of the Department of Public Safety (DPS), DOAA conducted a routine performance audit on GOHS. The Commissioner's request indicated that the audit was needed to provide a good understanding of GOHS'S purpose and mission, its overall performance, and its use of good business practice in the administration of federal funds.

Among many of DOAA's findings, was that GOHS should improve its operations in order to provide a more effective stewardship of the public monies entrusted to them. DOAA also recommended that GOHS do the following:

1. Formally evaluate its overall effectiveness or the effectiveness of all of the individual grants and contracts that it awards each year;
2. Maintain summary documentation for determining if grantees met the specific objectives outlined in their grant agreements;

# OFFICE OF THE STATE INSPECTOR GENERAL

## MEMORANDUM OF RECORD

Take steps to ensure that GOHS grants are equitably distributed among those areas of the state with the most serious highway safety problems;

3. Implement effective internal controls for ensuring that contractors fully comply with the terms of their contracts as a condition of being paid;
4. Establish a coherent personnel system with job titles, job descriptions, and pay ranges that reflect actual duties and responsibilities.

The March 2003 audit revealed that severe operational and managerial problems were allowed to exist at the GOHS for several years. Therefore, necessitating the need for the audit completed July 2003.

The DOAA and OIG determined that GOHS management in charge during the period of the reviews did not protect and properly administer the tax money provided by state of Georgia and Federal Government. The Director of GOHS left sometime after the election of 2002. Mickey McGuire was named as the Acting Director. During OIG's initial discussion with McGuire, he attributed his failure to make changes at GOHS, after being placed in an acting capacity, was due to Governor Perdue's office failure to outline his authority in writing. Therefore, McGuire's failure to address the problems allowed the status quo to continue at GOHS. As previously stated, the internal controls and procedures for administering grants, contracts and letters of agreement were insufficient to protect the public's funds.

On April 18, 2003, the OIG requested a meeting with GOHS Acting Director Mickey McGuire. The purpose of the meeting was to assist GOHS in establishing a plan of action (POA) to address the audit findings. The OIG recommended to McGuire that monthly meetings were necessary to assist GOHS in formulating a POA. These meetings continued until March 9, 2004.

DIG Walker and DIG DeLancey conducted an on-site visit to ascertain the egregiousness of the situation at GOHS. Based on the on-site review, the OIG determined that GOHS had not made sufficient progress concerning corrective measures and that a forensic audit was needed.

### **Meeting with the National Highway Traffic Administration:**

On April 25, 2003, the Inspector General and Deputy Inspectors General, Acting Director McGuire, met with Troy Ayers, Regional Director for NHTSA and his staff. Director Ayers expressed his concern over the past and present operation of the GOHS. He advised that his staff reviewed the GOHS's over-all program administration, which included contracts, grant administration, compliance with Georgia bid guidelines and determined that the GOHS "is the worst administered program he has ever seen." Ayers strongly recommended that GOHS conduct

# **OFFICE OF THE STATE INSPECTOR GENERAL**

## **MEMORANDUM OF RECORD**

a financial audit. On May 16, 2003, the OIG received a copy of NHTSA'S May 14, 2003 findings.

Based on the above meeting, the Inspector General requested a meeting with Tim Connell, Deputy Chief Operating Officer (DCOO). Other persons attending the meeting were Celeste Osborn, Special Assistant to the Chief Financial Officer, Acting Director McGuire and OIG staff. It was agreed that immediate actions should be taken regarding the administrative operation of the GOHS.

### **Meeting at the Attorney General's Office:**

On April 30, 2003, the Inspector General, his staff, and the Acting Director McGuire met with Assistant Attorneys General Mike Hobbs, Mary Beth Westmoreland and Jason Phillips. The purpose of the meeting was to present to the Attorney General's Office the need to

conduct a financial audit at the GOHS. Hobbs advised that he would research the request and contact the Inspector General.

### **Meeting with the Department of Audits and Accounts (DOAA):**

On May 1, 2003, Deputy Inspector Generals Phil Walker and Jeff Delancey met with Joe Wynn and John Thornton of the DOAA. The purpose of the meeting was to discuss the scope of the proposed financial audit at GOHS. Wynn requested that GOHS needed to make a written audit request. GOHS provided the request and the audit began on or about May 6, 2003. The OIG also provided DOAA with specific items for review during their audit. DOAA published their findings on July 10, 2003. The audit covered the dates of July 1, 1999 through April 30, 2003

### **Results of the July 10, 2003 audit:**

DOAA's July 10, 2003, audit found 8 areas they considered "reportable conditions." According to DOAA, the reportable condition was "a matter coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in the auditor's judgment, could adversely affect the GOHS's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements." DOAA considered their findings at GOHS as "material weaknesses." DOAA defines a material weakness as, "a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions".

The 8 areas are:

1. Accounting Controls FS-466GOHS-03-01(Overall)

# OFFICE OF THE STATE INSPECTOR GENERAL

## MEMORANDUM OF RECORD

2. General Ledger FS-466GOHS-03-02 (Ending Balance in Balance Sheet Clearing Account)
3. General Ledger FS-466GOHS-03-03 (Inadequate Accounting Procedures)
4. General Ledger FS-466GOHS-03-04 (Inadequate Accounting Procedures)
5. Capital Assets FS-466GOHS-03-05 (Inadequacies in Operation of Property Management System)
6. Expenditures/Liabilities/Disbursements FS-466GOHS-03-06 (Exceptions Relation to Expenditure Sampling)
7. Expenditures/Liabilities/Disbursements FS-466GOHS-03-07 (Exceptions Related to Expenditure Sampling)
8. Expenditures/Liabilities/Disbursements FS-466GOHS-03-08 (Exceptions Related to Expenditure Sampling)

### 1. Deficiencies in Internal Control

- Requests for proposals (RFP) requirements were not followed in the awarding of grants and contracts
- Improper separation of duties in the reconciliation of bank accounts and purchase procedures
- Written procedures for the following controls do not exist in management override of internal controls; purchasing; personnel access to data, assets, and computer programs; transaction authorization and changes to computer programs
- New vendor verification process was not performed
- Purchase orders and requisitions are not pre-numbered
- Purchase orders and requisitions are not always used when required
- Cancelled checks are not examined for proper payee, endorsement, or date
- Duplicate invoices received are not destroyed.

DOAA determined that management's failure to comply with provisions of the State of Georgia Accounting Procedures Manual caused the above deficiencies.

### 2. Ending Balances in Balance Sheet Clearing Accounts

- Audit revealed that, at two of the three years end under review, GOHS's general ledger balance sheet clearing accounts contain ending balances.

DOAA advised that the above situation was caused by management's failure to monitor the clearing account, and use them as prescribed in the State of Georgia

### 3. Inadequate Accounting Procedures

## OFFICE OF THE STATE INSPECTOR GENERAL

### MEMORANDUM OF RECORD

- General ledger for the federal programs at the program level revealed that many had negative (credit) accounts receivable balances, and positive (debit) accounts payable and fund balance account balances at the year end.

DOAA determined that the above deficiencies were a result of the GOHS failure to monitor federal program codes within the general ledger in a timely manner.

4. Inadequate Accounting Procedures
  - Accounting procedures of GOHS were insufficient to provide adequate internal controls over the general ledger accounts.

DOAA determined that the above deficiencies were the result of GOHS not reviewing the general ledger on a monthly basis to ensure accurate account balances.

5. Capital Assets
  - Fixed asset accounting procedures of the GOHS do not include monthly reconciliations of either beginning to ending inventory balances, or additions per inventory to purchases per general ledger.

DOAA concluded that the above deficiency was caused by GOHS's failure to follow fixed asset accounting procedures as detailed in the State of Georgia Accounting Procedures Manual.

6. Exceptions Related to Expenditures Sampling
  - The examination of documentation over the four-year period involving administrative expenditures. DOAA tested a total of 791 voucher packages for compliance with the State of Georgia Accounting Procedures Manual, (APM) §V, and page 5-4-2 which states in part: "Documentation involves preserving evidence to substantiate a decision, event, transaction or system. All documentation should be complete, accurate, and reported promptly. Documentation should contribute to achieving the State organization's mission, help managers in controlling their operations, and assist in analyzing operations." The following are exceptions found in that test work:

-Missing original documentation	111
-Travel did not involve employees	7
-Not approved for funding by an authorizing official	76
-Documentation not cancelled	37
-Purpose of travel not documented	7
-No evidence of receipt of goods or service	52
-Missing documentation	24
-Inadequate documentation	335

## OFFICE OF THE STATE INSPECTOR GENERAL MEMORANDUM OF RECORD

DOAA determined that the above exceptions were due to the failure of GOHS management to enforce documentation guidelines as established for state agencies.

### 7. Continued review in accordance with APM, § V, page 5-4-2. Exceptions Related to Expenditure Sampling

DOAA examined documentation over the four year period involving contract and sub-grant expenditures. A total of 112 contracts and sub-grants were tested for compliance. The following are exceptions found in that review:

-Missing claim for reimbursement	64
-Missing cost category detail	21
-No supporting documentation	23
-Payments not authorized by an appropriate official	82
-Inadequate documentation	106
-No on-site monitoring	81

DOAA advised that these exceptions were due to the failure of GOHS management to enforce documentation guidelines as established for state agencies.

### 8. Continued review in accordance with APM, § V, page 5-4-2. DOAA examined documentation over the four-year period involving state purchasing card transactions. DOAA tested 37 monthly credit card statements for compliance. The following are exceptions found in that test work:

-Purchase of items not allowed	176
-Circumvented single transaction dollar limit	1

According to DOAA, these exceptions were due to the failure of management to enforce documentation guidelines as established for state agencies.

At the end of each finding, DOAA made recommendations to GOHS management to insure compliance with state and federal guidelines and applicable laws

### **Governor Perdue announces new leadership at GOHS:**

On June 26, 2003 Governor Sonny Perdue appointed Robert F. Dallas Director of the GOHS and Robert G. Mikell as Deputy Director.

Almost immediately upon their appointments, Director Dallas and Deputy Director Mikell began to tackle the issues in both DOAA audits; specifically, the results of the July 10, 2003 audit. The OIG conducted regular meeting with GOHS to provide information and assistance. The OIG

# **OFFICE OF THE STATE INSPECTOR GENERAL**

## **MEMORANDUM OF RECORD**

suggested that the GOHS formulate a plan to bring the GOHS into compliance with federal and state guidelines and address staff requirements.

Pursuant to DOAA's audit dated July 10, 2003, and the coordinated efforts of the OIG and GOHS, Director Dallas enlisted the services of a consulting firm to review the operation of the GOHS and make recommendations as to the needed corrections. On March 4, 2004, the consulting firm provided Director Dallas with a hundred and ten (110) page report of their recommendations.

The report addressed internal controls and general operations of the GOHS. They advised that instituting internal controls in areas indicated would strengthen the integrity of GOHS operations. Based on the recommendations of the audit and Director Dallas' hands-on-approach to solving GOHS' problems, he restructured the personnel and their respective duties. Specifically, Director Dallas hired a Certified Public Accountant as GOHS' Budget Director and established the position of Administrative Manager. Director Dallas also revamped the Law-Enforcement Liaison Program.

The OIG, GOHS and DOAA reviewed specific contracts and grants that were previously issued by GOHS. The review revealed a lack of contract specificity. Many of the contracts and grants appeared to have conflicts of interest, in that they were awarded to individuals and organizations that were associated with GOHS employees. As a result of the information disclosed in the review, Director Dallas allowed approximately \$1,477,187 in contracts, grants and letter of agreements to expire and required all providers to reapply.

The OIG thanks Director Dallas for his letter of recognition dated October 3, 2003. Director Dallas, in part, said, "In conjunction with the Financial Audit conducted by the Department of Audits and Accounts (DAA), the IG's review proved invaluable in identifying GOHS' need to develop internal controls to protect public funds. Inasmuch as approximately \$530,000.00 in State funds and in excess of \$10,000,000.00 in Federal grant funds are managed through this office for the next fiscal year, the oversight and recommendations provided by the IG's office have helped protect this sum of public funds".

During this matter, the OIG worked closely with the DOAA and the newly appointed Director and Deputy Director to implement measures to stop the financial bleeding in this program. Most recommendations were implemented as the problems were identified and discussed.

It is therefore recommended that the present management of the GOHS continue to put in place their plan to restore the financial and managerial integrity of the GOHS. It is further recommended that this case be closed.